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United States Department of Agriculture

Farmers Home Administration

Program Aid 1002

Farm Operating Loans



Farm Operating Loans

The Farmers Home Administration (FmHA) makes and guarantees farm operating loans and provides technical management assistance to family farmers and ranchers. A "family farm" is defined as one that a family can operate and manage itself with a reasonable amount of hired labor.

These loans are tailored to a borrower's needs. The FmHA county supervisor helps the borrower analyze problems, determine available resources, and plan how resources can best be used.

Each applicant is given equal consideration without regard to race, national origin, color, religion, sex, marital status, age, or handicap.

How May Loan Funds Be Used?

Farm operating loan funds may be used to pay for items needed for a successful operation. These items include livestock, poultry, farm and home equipment, feed, seed, fuel, fertilizer, chemicals, hail and other crop insurance, food, clothing, medical care, and hired labor. Certain debts may be refinanced with an FmHA loan.

Minor improvements to buildings and real estate may be made, and water systems may be developed for home, livestock, and irrigation use. Funds may be used to finance the purchase of equipment for producing and harvesting trees and other products, for producing fish under controlled conditions, for roadside produce markets, and for nonfarm business enterprises.

Funds also may be used to control and abate pollution and to alter equipment, facilities, or methods of operation to comply with the Occupational Safety and Health Act of 1970.

What Are The Terms And Interest Rates?

Repayment terms and interest rates vary according to the type of loan made. Repayment is scheduled according to the borrower's ability to repay. The interest rate is set periodically, based on the cost of borrowing to the Government.

A lower interest rate is available for borrowers with limited resources. Loans to limited resource borrowers will be reviewed each year and the interest rate increased if the borrower has sufficient repayment ability. If at any time, however, the borrower has sufficient income and repayment ability to pay the current rate then being charged, the borrower's interest rate will be increased to the current rate.

For loans made by other lenders and guaranteed by FmHA, the interest rate and payment terms will be agreed upon by the borrower and the lender. Interest rates on these loans may not exceed the rate charged the lender's average farm customer.

Each borrower who receives an insured loan is expected to refinance the unpaid balance of the loan when it is financially feasible to rely on commercial credit sources.

Who May Borrow?

Individuals, partnerships, joint operations, cooperatives, and corporations primarily and directly engaged in farming and ranching on family-size operations may apply.

To be eligible, an individual must:

- have a satisfactory history of meeting credit obligations;
- have sufficient education, training, or experience in managing or operating a farm or ranch (within 1 of the last 5 years) and possess the industry and ability needed to succeed in farming;
- be a citizen of the United States (or a legal resident alien), which includes Puerto Rico, the Virgin Islands, Guam, American Samoa, and certain former Pacific Trust Territories;
- possess the legal capacity to incur the obligations of the loan;
- be unable to obtain sufficient credit elsewhere at reasonable rates and terms to finance actual needs;
- be the owner or tenant operating a family farm after the loan is closed.

In the case of corporations, cooperatives, joint operations, or partnerships, the stockholders, members, or partners holding a majority interest must meet these same eligibility requirements, and the entity must be authorized to operate a farm or ranch in the State where the land is located.

If the individuals holding a majority interest in the entity are related by blood or marriage, at least one stockholder, member, or partner must operate the family farm. If not related by blood or marriage, those members, stockholders, partners, or joint operators holding a majority interest in the entity must operate the farm.

Who Determines Eligibility?

The county or area committee of the FmHA determines eligibility of applicants under the law. The committee consists of three persons who know local farming and credit conditions.

If The Applicant Is Eligible, What Is The Next Step?

The FmHA county supervisor will assist the applicant in working out a plan to make the best use of land, labor, livestock, capital, and equipment. Before a loan is made, it must be clear that the borrower will have enough income to meet operating and family expenses and to repay the loan and other debts.

Should A Tenant Have A Written Lease?

In most cases, yes. With or without a written lease, however, a farm operating loan will not be made unless the applicant has the use of a farm for a long enough period to carry out a successful farming operation.

What Assistance May The Borrower Expect After Receiving A Loan?

These loans are accompanied by technical advice to help borrowers make profitable use of their land, water, capital, and other resources.

Can A Borrower Use Other Credit?

Yes. Borrowers are encouraged to obtain needed additional credit from other sources when it is advisable for a successful operation and is available at reasonable rates and terms.

What Security Is Required?

Each loan will be secured adequately to protect the interest of the Government. Security usually consists of a first lien on crops to be produced and on livestock and equipment purchased or refinanced with loan funds. A lien may be taken on certain other chattel and real estate property, and an assignment usually will be taken on income such as that from a dairy enterprise.

What Determines The Size Of The Loan?

The FmHA county supervisor and the applicant determine the amount of farm operating credit that is needed for the operation. The limit on farm operating loans made directly by FmHA is \$200,000. The agency can guarantee loans of up to \$400,000 for operating purposes.

Can A Part-time Farmer Qualify For A Loan?

Yes, if otherwise eligible and if the farming income is necessary to provide adequate family income.

Does It Cost Anything To Apply For A Loan?

No. If a loan is made, however, the borrower pays the fees charged for lien searches and for filing and recording security instruments.

Where Can You Apply For A Loan?

Apply at the FmHA county office servicing the area in which you expect to carry out your operations.

If you are unable to locate the local FmHA office, write the Farmers Home Administration, U.S. Department of Agriculture, Washington, DC 20250. Be sure to give the name of the county in which you plan to operate a farm.

What Other Farm-related Loans Are Made By FmHA?

Loans may be made to purchase and develop farms; build and improve rural homes, farm labor housing, and essential farm buildings; finance projects for rural youths; and meet emergency credit needs of farmers suffering from natural disaster.

Farmers Home Administration is an Equal Opportunity Lender. Complaints of discrimination should be sent to: Secretary of Agriculture, Washington, DC 20250.

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